

CHAPTER 1

INTRODUCTION

1.1 Background of the research

The daily lives of every human being mostly comprise of work and career, although every human has different routines, habits and work accordingly. However, human beings need some time away from work by way of vacation for the goodness of their physical and mental health. Sherry Amatenstein, a therapist and editor of the anthology said, "Vacation is essential to reset and remind yourself that career is not the be-all and end-all. There are other facets to a healthy existence [outside work]," (Amatenstein, 2016) A licensed psychologist, Shannon Torberg (2017) quoted that taking time away from the stresses of work can improve our health, motivation, job performance, and give us the break we need to be refreshed and better equipped to handle whatever comes back to our lives and jobs. Several studies also show that holidaymakers have lower stress, lower risk of heart disease, better life outlook, and more motivation to achieve goals.

One of the best places where people can take their time away from work and enjoy their vacation is Bali. Bali is a small tropical paradise island, with an area of 5 636.66 km² located in Indonesia (Badan Pusat Statistik Provinsi Bali, n.d.). It is the most populated and influential island in all Indonesia with various customs and exciting inland attractions (Bali, n.d.). The history of Bali tourism started back in 1920 when strangers mostly from Europe was travelling to Bali and impressed with the beauty and culture. Among those tourists were artists, writers and scientists, therefore many have stayed longer in the island and wrote books about Bali, opened art museums, etc. Information about Bali was well distributed via writing, art works about Bali and stories, to other foreign countries and since then, tourism started and first hotel in Bali was established (Antara & Sumarniasih, 2017).

Bali has developed a world of its own, packed with some of the best beaches in the world, beautiful waterfalls, temples, lively nightlife, and many other things. It is described as the favorite destination for both adventurers and people who are seeking

stress-busting vacation. A research conducted by several researchers prove that the appeal of Bali to be visited as a tourist destination is the uniqueness of culture and its natural beauty, while the completeness of facilities and the advancement of tourism infrastructure are factors that are considered likely to be provided by all tourism destinations of the same standard (Dr. I Gusti Bagus Rai Utama, 2016). The island is also filled with numerous recreation, such as nature walks, diving, surfing horseback riding, bungee jumping and white water rafting (Bali, n.d.). One can only witness its real beauty by going there themselves.

With the aforementioned description, Bali deserve to carry the name as one of the best travel destination. According to NZ Herald, TripAdvisor's annual traveler choice awards named Bali as the best destination in the world in 2017. Although it is favored mostly by Chinese, Australians and New Zealanders, Bali is always packed with domestic and international tourists (Herald, n.d.). In 2015, a magazine published by American "Travel and Leisure" has ranked Bali as the second best island for destination travel in the whole world. The results of the 10 best islands in the world vote on its website are presented from hundreds of thousands of islands (Antara & Sumarniasih, 2017).

Bali's economy is dominated by tourism, which is quite different from other provinces in Indonesia. The archipelago has been a famous destination for foreigners since the 1930s and as tourism has become the leading sector in the economy, it has led the network of the economy expands from local to international. This results in the contribution of other related sectors that support tourism, such as hotels, restaurants, transportation, trade, tourist attractions and others. From the year 2003 to 2017, the foreign tourists visit to Bali continues to increase. According to Suryawan Wiranatha, the cause of this increase is caused by the satisfaction and loyalty of foreign tourists. The role of tourism in Indonesian economy is so important after the weakening of oil and gas as the increase in tourist arrivals would increase the foreign exchange earning of Indonesia (Antara & Sumarniasih, 2017).

As shown in Table 1.1, the number of visitor in Bali have been continuously increasing since 2007 to 2018, from 1,668,531 to 6,070,473. In 2017, the visitors in

Bali make up to 40.5% of the total visitor in Indonesia. This number of tourists in Bali is also expected to increase further as the government has been providing special attention to Bali in order to achieve the target of 20 million visitors by 2020. The Government has increased its efforts to speed up tourism and campaigns in Indonesia around the world with the use of many hospitality and tourism conferences and progressive advertisements through a range of media (Gapura, 2017).

Table 1.1
Number of Foreign Visitor to Indonesia and Bali

<i>Year</i>	Indonesia		Bali	
	Total	Growth (%)	Total	Growth (%)
2003	4 467 021	-11.25	993 185	-22.76
2004	5 321 165	19.12	1 472 190	48.23
2005	5 002 101	-6.00	1 388 984	-5.65
2006	4 871 351	-2.61	1 262 537	-9.10
2007	5 505 759	13.02	1 668 531	32.16
2008	6 234 497	13.24	2 085 084	24.97
2009	6 323 730	1.43	2 385 122	14.39
2010	7 002 944	10.74	2 576 142	8.01
2011	7 649 731	9.24	2 826 709	9.73
2012	8 044 462	5.16	2 949 332	4.34
2013	8 802 129	9.42	3 278 598	11.16
2014	9 435 411	7.19	3 766 638	14.89
2015	10 406 291	10.29	4 001 835	6.24
2016	11 519 275	10.70	4 927 937	23.14
2017	14 039 799	21.88	5 697 739	15.62
2018	15 806 191	12.58	6 070 473	6.54

Source: BPS - Statistics of Bali Province

Tourist attraction is the main mobilization that motivates tourists to visit a certain tourism destination. Antara & Sumarniasih (2017) stated that the demand for tourism products in most of the source markets and tourist destinations continues to grow. One of the most progressive tourist attractions in Bali is beach club. Therefore, many people use this opportunity to start a beach club business. The current trend of tourist is to find specific foods in their destination. Tourists do not concern for price to enjoy tasty food and their lifestyle has changed. They are also looking for cozy situation

and prime service as parts of the food they enjoy (Adi, 2012). Many places in Bali worth to be visited, which attract people to their sights, vibe, or taste, such as restaurants, temples, markets, waterfalls, and many others. However, one of the places that combine all above listed is a beach club, where people can see beautiful sunset and beaches, listen soothing music, feel great relaxation and taste amazing foods at the same time in the same spot.

The beach club industry is part of the hospitality industry found across the world with ocean or seaside aspect as its operation. Guests are provided with lounge chair, cabana or alternate seating arrangement to relax on the beach or around a pool located at the beach. Some beach clubs charge a general entrance fee for the day, but some do not and leave the seating open. Some may even charge for a specific seating and pool use (Cornell.Edu, 2013). The Beach Clubs on Bali are famous for beautiful settings and scenery, great music, style, comfort, delicious food, famed DJs and Live Bands, spectacular architecture and design (Bali's Beach Club, n.d.). With the continuous increase in tourist arrivals in Bali, the number and quality of tourism services and supporting facilities are continuously improving (Antara & Sumarniasih, 2017).

The advantages of beach clubs is that people can find comfort, convenience and ambience. For a relatively small price, or some may even be free, people can get to the seaside, with access to the ocean or infinity pool for a swim, while enjoying delicious mixed cultural food and beverages. Access to beaches allow many adrenaline activities such as snorkeling, surfing, kayaking, and more as part of beach club's standard offering. Bars, bathrooms, restaurants, pool and sunbeds are provided as part of their amenities, which makes them a casual, convenient and cost-effective way of spending fun time during vacation (Escape, 2016).

There are countless beach clubs in Bali and many of them have attractive physical environment, service and food. However, one of the most well-known and finest according to magazines and websites is Potato Head Beach Club Bali. Potato Head Beach Club Bali was first introduced in 2010 by Ronald Akili and since then it has become one of the best beach clubs in Bali, gaining numerous international

recognitions from many publications and medias. The Beach Club has three restaurants, three bars, an infinity pool and large lawn, all overlooking the Indian Ocean. The tropical modern club features an open air and colored antique amphitheater structure, salvaged from across Indonesian archipelago. The beach club is known for its multi-cultural blend of cuisine, beverages and entertainment, which also imbues music, art and fashion at the same time. Its program of parties, exhibitions and installations are from both local and international DJs, musicians, artists and architects (Balithisweek, n.d.) (Head, n.d.). The logo of the widely known Potato Head Beach Club Bali is displayed in Figure 1.1.



Figure 1.1 Potato Head Beach Club Bali Logo
Source: Balithisweek.com (2018)

The history of Potato Head Beach Club Bali started when Ronald Akili and his friend, Jason collaborated with Ronald's wife, Sandra as head chef to establish the first restaurant. Ronald has been ingrained with art since childhood, and his partner share the same passion of making something unique, which becomes the founding principles of Potato Head. They both are unafraid to express the Balinese culture through food, art, fashion, etc (Jelita, 2015). *Ronald mentioned that they believe in taking core essence of hospitality and redefining it using the powerful features and supports, from technology to social change. They are focusing on how they can leverage their*

strengths instead of improving their weaknesses, and changing business models to cater to millennials (East, 2018).

Potato Head Beach Club is mentioned in most articles as one of the best beach clubs in Bali. For example, in July 2018, Wanderluxe by The Luxe Nomad has placed Potato Head in their magazine of top 7 beach clubs in Bali (Nomad, 2018). Another example where the website whatsnewindonesia.com put Potato Head Beach Club in first place as “33 Best Beach Clubs in Bali in 2019.” ([whatsnewindonesia](http://whatsnewindonesia.com), 2018). Hotels.com and The Asia Collective also mention Potato Head Beach Club Bali in their list of best beach clubs in Bali ([theasiacollective](http://theasiacollective.com), n.d.) (Hotels.com, n.d.). Countless more magazines and articles have mentioned Potato Head Beach Club in their list as one of the best beach clubs.

Potato Head Beach Club has gained both international and national popularity. Having a concept of ‘local spirit, tropical soul’, the bar and restaurant provide delicious food and beverages, while also respecting the environment. Potato Head Beach Club achieved the first winner of Ketel One Sustainable Bar Award, having the highest sustainability rating of the bars in Asia’s 50 Best Bars 2018. The beach club is environment sustainable, removing all plastic straws and reducing paper use for the environment. Many drinks are served in reusable coconut shells or wooden cups. The food served, such as seafood and meat comes from a network of local farmers and anglers. Potato Head Beach Club also works with an international animal protection organization, Humane Society, and has also received its greenhouse gas emission certification. With the recent eruptions of Mountain Agung in Bali, Potato Head responded by sending supplies, water and food to the victims over three-month period ([worlds50bestbars](http://worlds50bestbars.com), 2018).

According to Han and Ryu (2009), beach club quality (food quality, physical environment quality, customer service quality) and customer satisfaction is the most important marketing aspect since it leads to customer loyalty, including customer revisit intention and positive word-of-mouth. Food quality, physical environment quality and customer service quality are important components of experience to form

the beach club quality. (Chowetal.,2007; Jang and Namkung, 2009; Namkung and Jang, 2008; Ryu and Han, 2010).

Ryu (2005) stated that physical environment quality is similar to atmospheric. One of the major factors determining psychological conditions and consumer behavior is the physical environment. Studies define this term as an environment, which consist of overall layout, design, ambience, lighting, decoration, etc. (Lee, 2012). Potato Head Beach Club provide great quality physical environment as their physical environment itself have shaped its brand image, making the unique architecture design an iconic landmark around the area (as shown in Figure 1.7). Figure 1.2, 1.3 and 1.4, also shows the physical environment of Potato Head Beach Club, having tropical environment, clean beach, neat dining areas and well-dressed employee.



Figure 1.2 Potato Head Beach Club Lounge

Source: ptthead.com/bali/



Figure 1.3 “Ijen” Restaurant in Potato Head Beach Club
Source: ptthead.com/bali/

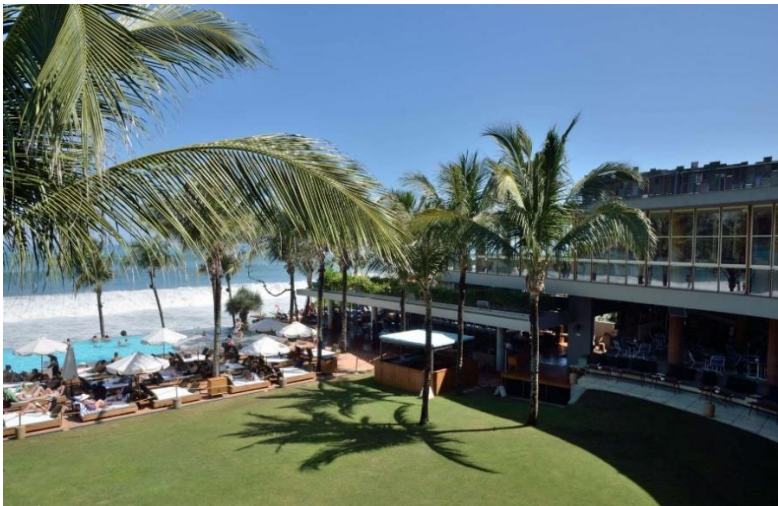


Figure 1.4 Potato Head Beach Club lawn and pool
Source: asia-bars.com

Food quality is commonly evaluated by customers from attributes such as the food tastiness, presentation, freshness and temperature (Bharath M. Josiam C. F., 2014). Food quality is important for restaurants as it will satisfy the needs and expectations of the beach club customers who orders food, and cause major impact on the customer satisfaction and revisit intention (Jang, 2007). In Potato Head Beach Club, food quality can be proved to be outstanding in Figure 1.5 and 1.6, by the attractiveness of the presentation, freshness, etc.



Figure 1.5 Food served in Potato Head Beach Club
Source: [tripadvisor.com](https://www.tripadvisor.com)



Figure 1.6 Food in Potato Head Beach Club
Source: ptthead.com/bali/

Service quality is the outcome of the difference between customer's expectations of the service and customer's perceptions of the actual service performance (Naik, 2010) Service quality is considered an important core concept in the hospitality industry and a critical success factor as good services can cause customer satisfaction, which leads to customer loyalty and attracted new customers. (Ankur, 2018) Potato Head Beach Club provide good service to customers by providing quick service, instilling hospitality and making everyone the main customers.

Brand image refers to a number of perceptions about a brand that consumer expresses as reflected by brand associations (Keller, 1993) Potato Head Beach Club is well-known for its unique design, delicious food and good service. The colorful exterior of the beach club made of old-fashioned window shutters that formed like a stunning coliseum becomes one of the image for the beach club (As shown in Figure 1.7) (Uttam, 2016). Potato Head Beach Club pioneered the concept of ‘local spirit, tropical soul’, with a unique combination of music, dining, art, entertainment and fashion, into one experience (Head, n.d.). The beach club also achieved top three in leading restaurants in Bali, improving Bali’s category of restaurant and resulting Bali to win the global 2017 Travelers' Choice Awards in March.



Figure 1.7 Potato Head Beach Club Exterior
Source: nowbali.co.id

Customer perceived value definitions generally include the difference of what customers get and what they give up to buy the service. The sacrifices customers give up can be in a form of price, time, physical and mental effort, etc. (Tam, 2010).

Customer satisfaction is defined as the overall customer assessment of the company performance to date. If the perceived performance exceeds customer expectations, then customers are satisfied, if perceived performance does not exceed expectations, customers are dissatisfied (Gustaffsson, 2006).

Customer loyalty as described by Wang (2015) is a commitment to a brand, product, service, or organization. Customers are attached to the brand, willing to build

relationship with the brand, willing to buy the beach club's new product and to recommend the beach club or its service to others.

1.2 Research Problems

1. Does Physical Environment Quality have a significant effect on Beach Club Image of Potato Head Beach Club in Bali?
2. Does Physical Environment Quality have a significant effect on Customer Perceived Value of Potato Head Beach Club in Bali?
3. Does Food Quality have a significant effect on Beach Club Image of Potato Head Beach Club in Bali?
4. Does Food Quality have a significant effect on Customer Perceived Value of Potato Head Beach Club in Bali?
5. Does Service Quality have a significant effect on Beach Club Image of Potato Head Beach Club in Bali?
6. Does Service Quality have a significant effect on Customer Perceived Value of Potato Head Beach Club in Bali?
7. Does Beach Club Image have a significant effect on Customer Perceived Value of Potato Head Beach Club in Bali?
8. Does Beach Club Image have a significant effect on Customer Satisfaction of Potato Head Beach Club in Bali?
9. Does Customer Perceived Value have a significant effect on Customer Satisfaction of Potato Head Beach Club in Bali?
10. Does Customer Satisfaction have a significant effect on Customer Loyalty of Potato Head Beach Club in Bali?

1.3 Research Objectives

1. To examine the effect of Physical Environment Quality towards Beach Club Image of Potato Head Beach Club in Bali

2. To examine the effect of Physical Environment Quality towards Customer Perceived Value of Potato Head Beach Club in Bali
3. To examine the effect of Food Quality towards Beach Club Image of Potato Head Beach Club in Bali
4. To examine the effect of Food Quality towards Customer Perceived Value of Potato Head Beach Club in Bali
5. To examine the effect of Service Quality towards Beach Club Image of Potato Head Beach Club in Bali
6. To examine the effect of Service Quality towards Customer Perceived Value of Potato Head Beach Club in Bali
7. To examine the effect of Beach Club Image towards Customer Perceived Value of Potato Head Beach Club in Bali
8. To examine the effect of Beach Club Image towards Customer Satisfaction of Potato Head Beach Club in Bali
9. To examine the effect of Customer Perceived Value towards Customer Satisfaction of Potato Head Beach Club in Bali
10. To examine the effect of Customer Satisfaction towards Customer Loyalty of Potato Head Beach Club in Bali

1.4 Research Contributions

The result of this research is aimed to provide benefits to the following:

1.4.1 Practical Contributions

This research enriches and broadens the existing theory about marketing strategies for customer loyalty that is connected with variables such as physical environment quality, food quality, service quality, beach club image, customer perceived value, customer satisfaction, and customer loyalty that becomes the research gap in this study.

1.4.2 Theoretical Contributions

The writer hopes that the result of this research can be the basis and scientific data for Potato Head Beach Club. In addition, through this research is expected for beach club industry especially Potato Head Beach Club in Bali to know how important customer loyalty in order to increase the visitors of Potato Head Beach Club.

1.5 Research Limitations

1. This research only has seven variables from three independent variables, they are, physical environment quality, food quality, and service quality. Three intervening variables which is beach club image, customer perceived value, and customer satisfaction. One dependent variables, which is customer loyalty.

2. The object for this research is Potato Head Beach Club Bali and the limitation of the subject for this research is set for customer of Potato Head Beach Club in Bali, ranging 18 - 60 years old and those who have visited at least twice to Potato Head Beach Club.

1.6 Research Outline

In order to facilitate the reader in following the discussion, the research is arranged systematically into five chapters:

CHAPTER I: INTRODUCTION

This chapter defines about the research problem and provides the background information that becomes the based research for the writer to start this research in detailed that can contribute to understanding the research problem. The content for this chapter includes the background information, research problems, research objectives, research contributions both theoretically and practically, research limitations, and research outline.

CHAPTER II: LITERATURE REVIEW

This chapter explains the major studies used in this research, previous research, theoretical foundations, research models, frameworks, and how the modeling efforts address the hypothesis to be tested.

CHAPTER III: RESEARCH METHODS

This chapter describes the detailed technical and scientific activities such as type of research, population and sample, collection methods, operational definitions and measurement of variables and data analysis methods.

CHAPTER IV: DATA AND ANALYSIS

This chapter contains an overview of the research, which is Potato Head Beach Club, data analysis, descriptive statistics and discussion on how the data collected are related to the theories and prior researchers presented at the beginning of the study.

CHAPTER V: CONCLUSION

This chapter consists of the conclusion of this research, as well as gives implications and recommendation.